LLOYD’S OF LONDON
CENTRAL REGISER & ARCHIVE
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FROM:	Manager - International Tax, Taxation Department.
LOCATION:	TAX/58/323
EXTENSION:	6860
DATE:	4 August 1998
REFERENCE:	TAX/MCM/hrc/Y940
SUBJECT:	INSURANCE PREMIUM TAX - TRAVEL
ACTION POINTS:	**Underwriters and Brokers to note.**
DEADLINE:	**Immediate.**

1. Introduction

1.1 The purpose of this bulletin, which supplements the market bulletins dated 26 March 1998 and 28 May 1998, is to provide more detailed guidance on the extension of the higher rate of IPT of 17½% to all travel insurance effective for policies incepting on or after 1 August 1998. Section 2 defines what is meant by travel insurance and sections 3, 4 and 5 clarify the rate applying to specific policies. There is a de minimis provision which means that where a travel risk is only a small part of an insurance contract covering other risks, IPT can be charged at the standard rate of 4% on the whole premium and the way in which this operates is covered in section 3. Finally, section 6 sets out the transitional arrangements for the rate change.

2. When the 17½% Rate Applies

2.1 Travel insurance is insurance which relates to risks to which a traveller is exposed at any time before an intended trip or during the course of travel. This definition covers, for example, cancellation insurance, personal accident insurance, medical insurance, compensation for delays insurance and insurance of personal effects covering travellers before they travel, whilst they are travelling and whilst at their holiday or business destination.

2.2 For these purposes travel risks mean risks associated with or related to travel outside the UK, overnight stay in the UK and travel by air in the UK.

2.3 The higher rate of 17½% is due on policies which cover "a person travelling" i.e. where the person travelling is the insured. This means that where a company takes out a group travel policy to cover its employees the standard rate of 4% applies. This is because the insurance contract is between the company and the insurer and covers the company's risk; employees cannot claim directly from the insurer.

However, if an individual takes out a policy covering private or business travel the higher rate of 17½% will apply.

2.4 It therefore follows that travel policies effected by a partnership covering individual partners as well as employees have an exposure to the higher rate of 17½% on the proportion of the premium which covers the partners or sole trader. Customs and Excise have however confirmed that they do not expect insurers to apportion premiums in these circumstances and insurers should apply the standard rate of 4% to such policies.

Please note that Customs and Excise have agreed to these arrangements as a matter of administrative convenience. They have warned that they may be withdrawn if abused.

If a policy covers only the individual partners of a partnership or only the sole trader these procedures do not apply and, if appropriate, tax should be charged at 17½%.

3. <u>The de minimis provision</u>

3.1 There is a special provision which covers the situation where a travel risk is included in a policy covering other risks such as a household policy, which covers the personal effects of the householders during travel. This provision means that underwriters do not have to apportion a premium if only a small proportion would be taxable at 17½% and the balance at 4% and can account for tax at 4% on the whole premium.

3.2 The provision applies provided that **both** of the following conditions are met :

(i) the policy only covers **one** of the following travel risks

- (a) cancellation of travel or of accommodation arranged in connection with travel
- (b) delayed or missed departure
- (c) curtailment of travel or of the use of accommodation arranged in connection with travel
- (d) loss or delayed arrival of baggage/personal effects
- (e) personal injury or illness or expenses of repatriation; **and**

(ii) the proportion of the premium attributable to the travel risk does not exceed 10% of the total premium under the contract, including any adjustment or additional/return premiums.

If both conditions are not satisfied the premium must be apportioned between the proportion taxable at 4% and the balance taxable at 17½%.

4. <u>Special provisions for policies relating to motor vehicles, caravans, boats and aircraft</u>

4.1 A number of motor, aviation and marine policies would technically fall within the definition of a travel policy and there is a specific provision to exempt them.

4.2 The high rate of 17½% does not apply to any policy covering a motor vehicle provided it covers a period of at least one month for the person travelling and provides cover of the kind generally known as :

(i) fully comprehensive
(ii) third party, fire and theft
(iii) third party; or
(iv) roadside assistance

4.3 The same provision also applies to policies covering caravans, boats and aircraft provided the cover broadly corresponds to that set out in 4.2 above and is provided for a period of at least one month for the person travelling.

5. Personal accident

5.1 As personal accident policies cover individuals outside the home they come within the definition of travel policies, although it is anticipated that most policies will be covered by the de minimis provision set out in 3) above. To ease administration, Customs & Excise have agreed that underwriters, with one exception, can continue to write individual personal accident on the presumption that 4% will apply. Customs & Excise do not expect them to seek any additional information about the travel plans of an insured during the period which will be covered by the policy.

The one exception will be when an underwriter is asked to write a bespoke policy and the travel plans of the insured are a material rating factor. This could happen, for example, if a personal accident policy is taken out to cover an individual on a specific journey.

5.2 These rules also apply to policies covering medical expenses.

5.3 If a policy covers both personal accident and medical expenses it may be regarded as a travel policy but it is difficult to give general guidance as the tax position will depend on the terms of the particular policy. If an underwriter/broker is uncertain about the rate of tax they can contact Lloyd's Taxation Department [extension 6860] for assistance.

6. Date of change

6.1 The higher rate of 17½% is effective for policies incepting on or after 1 August 1998. For policies incepting before that date the old rate of 4% continues to apply for a transitional period.

This transitional period will end on 31 January 1999, and premiums signed by LPSO on or after 1 February 1999 will be subject to tax at the new rate of 17½% even if the policy incepted before the 1 August 1998.

6.2 The insurer has a legal responsibility to pay IPT to Customs & Excise at the correct rate and if insufficient tax is collected for the insured, **underwriters will be required to fund any shortfall.**

6.3 LPSO will do their best to sign premiums relating to policies incepting before 1 August 1998 by 31 January 1999. However this cannot be guaranteed and brokers are asked to present risks as soon as they can.

6.4 A Market bulletin will be issued later in the year to remind underwriters and brokers of the cut-off date but please note that it is likely that any documents presented at the London or Chatham barriers on Friday 29 January 1999 will not be signed by LPSO until February 1999.

This Market bulletin has been sent to all Lloyd's brokers, managing agents, active underwriters and recognised auditors.

If you have any general queries on IPT, please contact me on extension 6860. Questions concerning the closing procedures at LPSO should be referred to the LPSO Business Support Helpline on extension 2400.

Maureen McLeod
Taxation Department